

Rising Rates and Inflation:

Recession Risks

Asheville Home Builders Association

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Asheville
Home Builders
Association



Macro/Housing Outlook



**Federal reserve aggressively tightening monetary policy
Interest rates surged at start of 2022**



**Forecast now includes a recession in 2023
Mild recession as inflation is challenged**



Inflation remains near 40-year highs



**Single-family construction flat; multifamily, remodeling expanding
Demand for more space in homes continues**



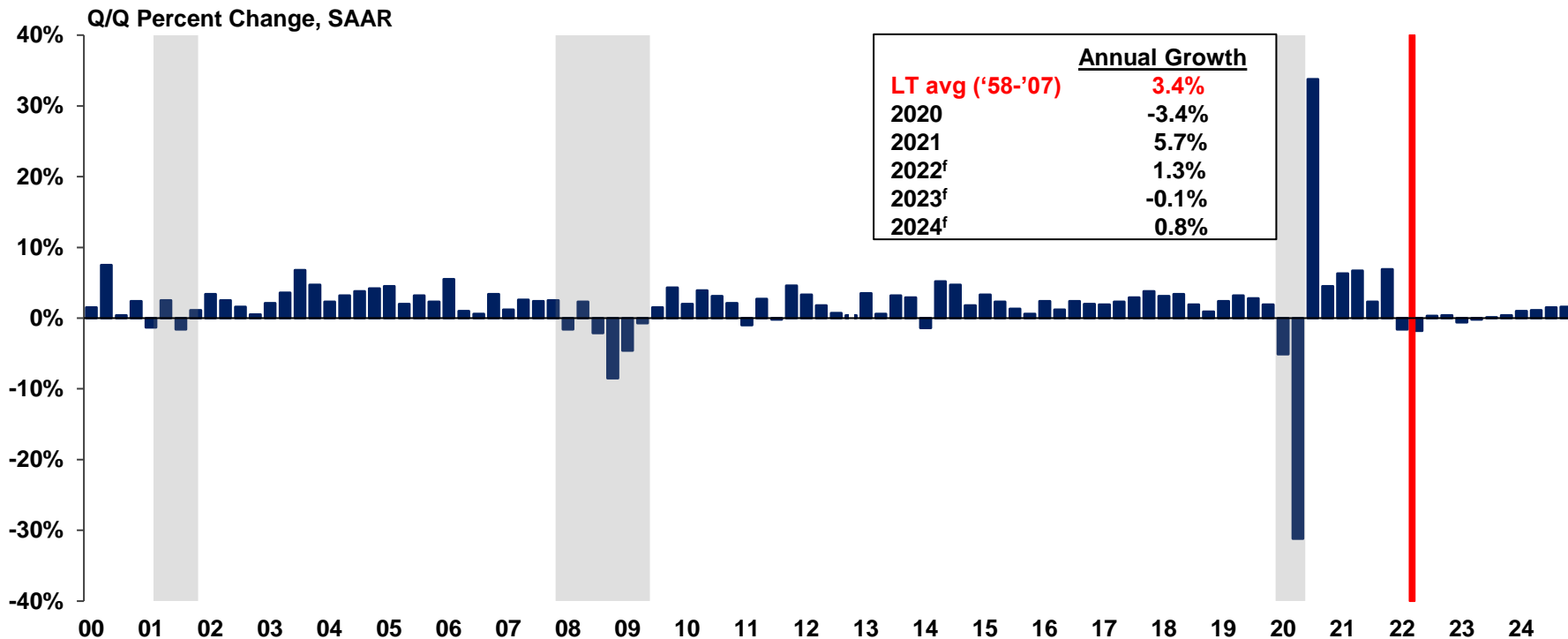
**Housing affordability will decline in 2022 and 2023
Communities with ability to add affordable housing will grow**

A Look Back – Forecasting Retrospective

- *What did we get **right**?*
 - 2014-2019 home building market was supply-side constrained
 - Deficit of 1 million homes
 - A geographic shift in demand occurred in 2020: suburban shift
 - Lumber tariffs made supply-chains and inflation worse in 2021
- *What did we get **wrong**?*
 - *Housing recovery from 2Q20/shutdowns was more rapid than expected*
 - *Interest rates have remained lower than expected (rising now)*
 - *Home price growth was much stronger than expected*

GDP Growth – Two Quarters of Decline for 2022 Likely

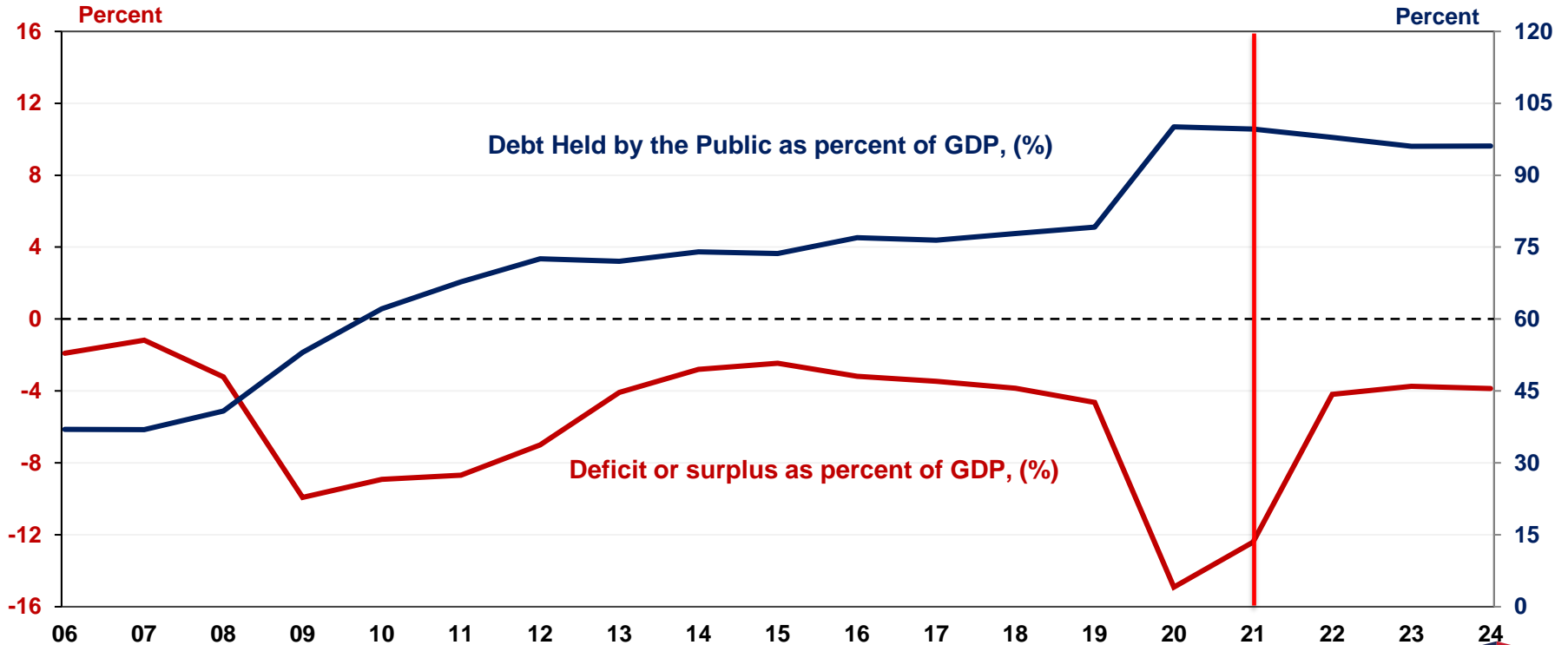
“Official recession” timing difficult as job losses will follow after GDP decline



Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast.

Government Deficits Growing

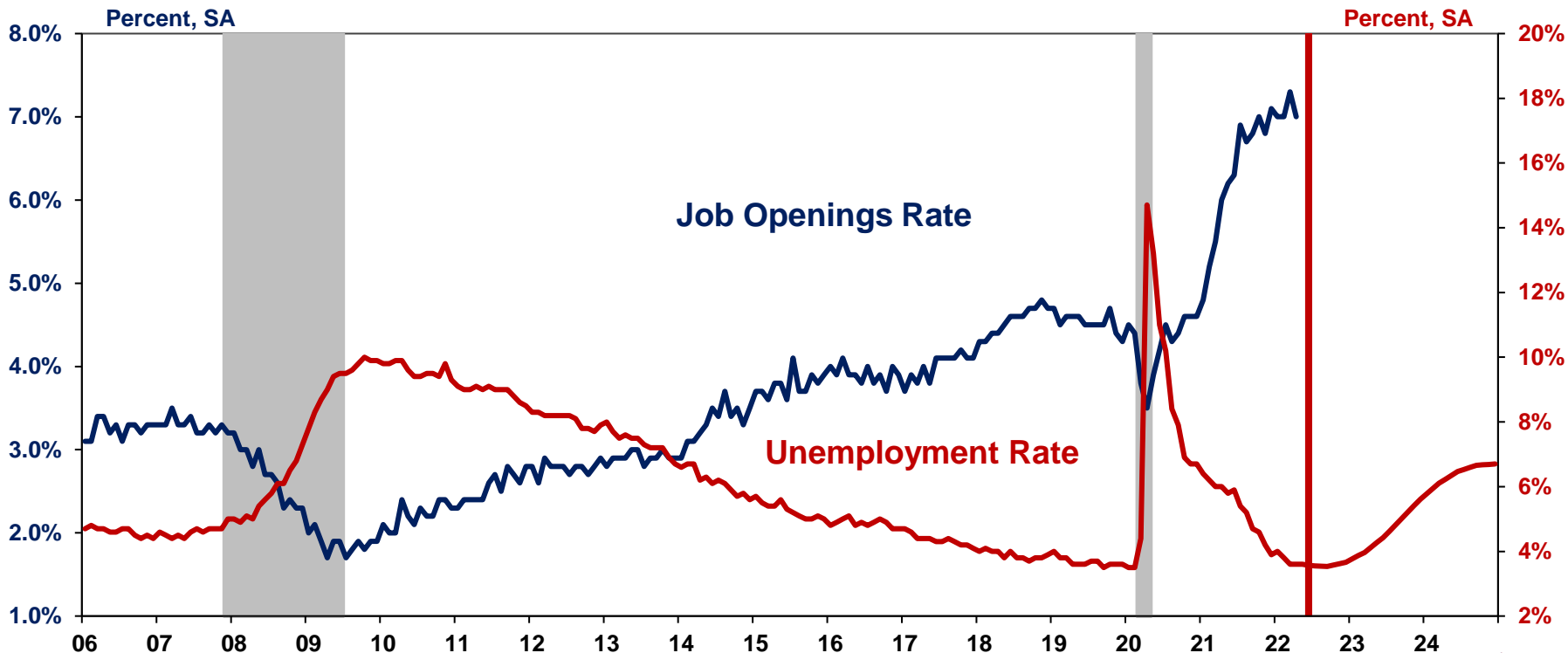
Reaching unsustainable levels



Source: Congressional Budget Office (CBO).

Rise of Job Openings

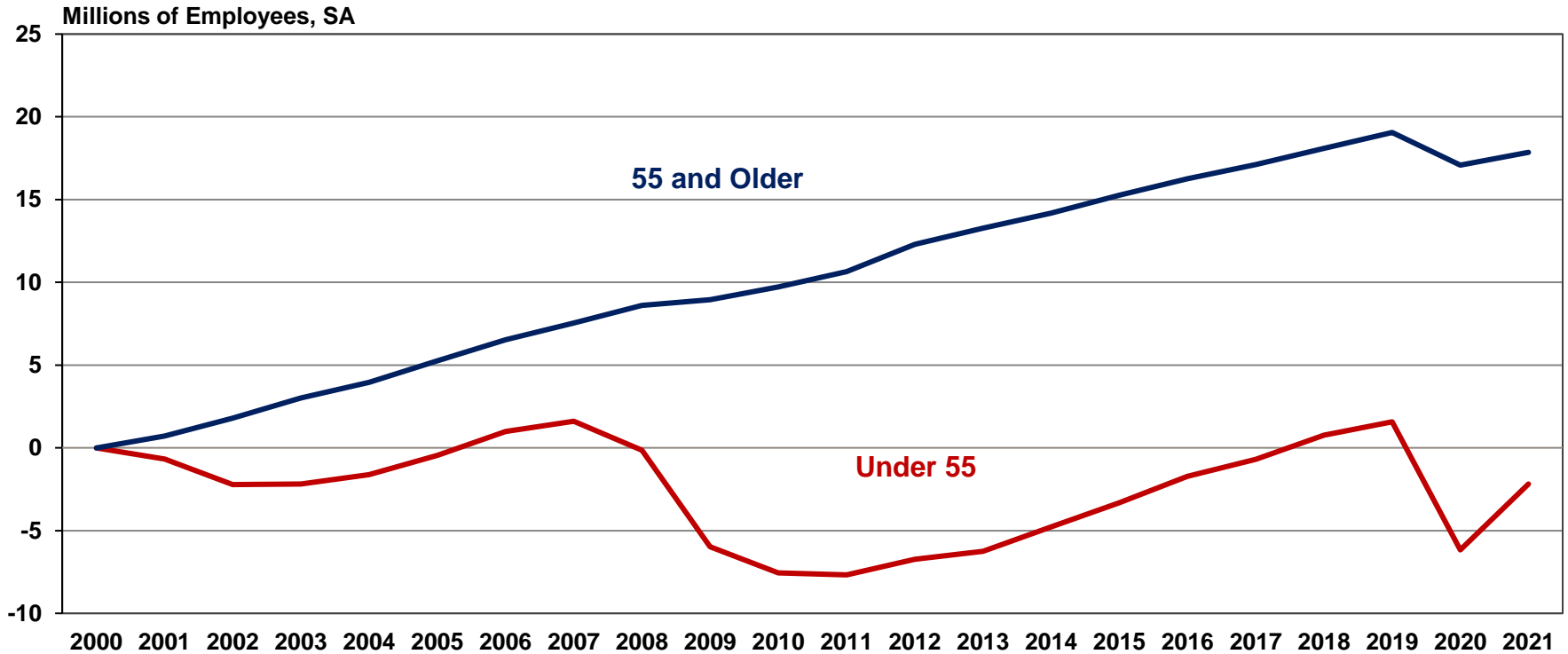
More than 11 million open jobs



Source: U.S. Bureau of Labor Statistics (BLS) and NAHB forecast.

Cumulative Change in Employment by Age Group

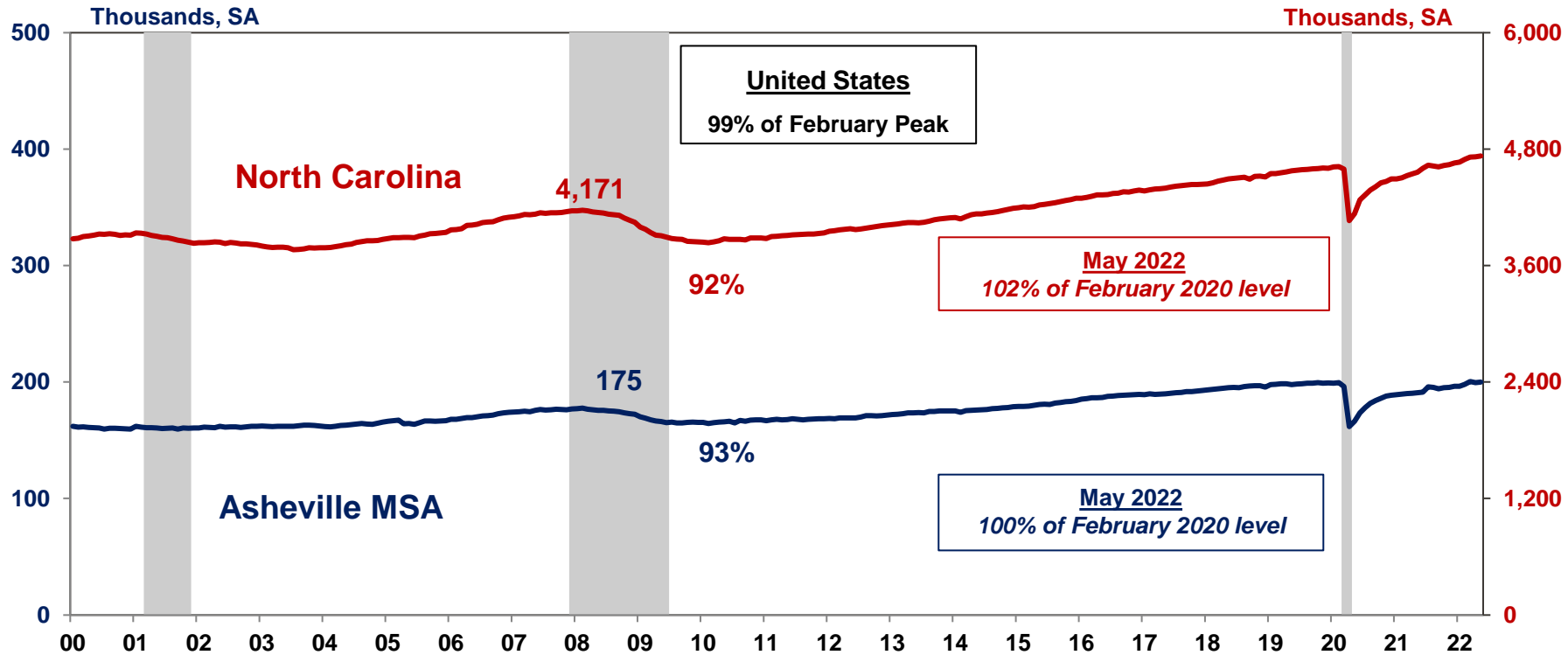
Mind the Gen-X gap



Source: U.S. Bureau of Labor Statistics (BLS).

Payroll Employment

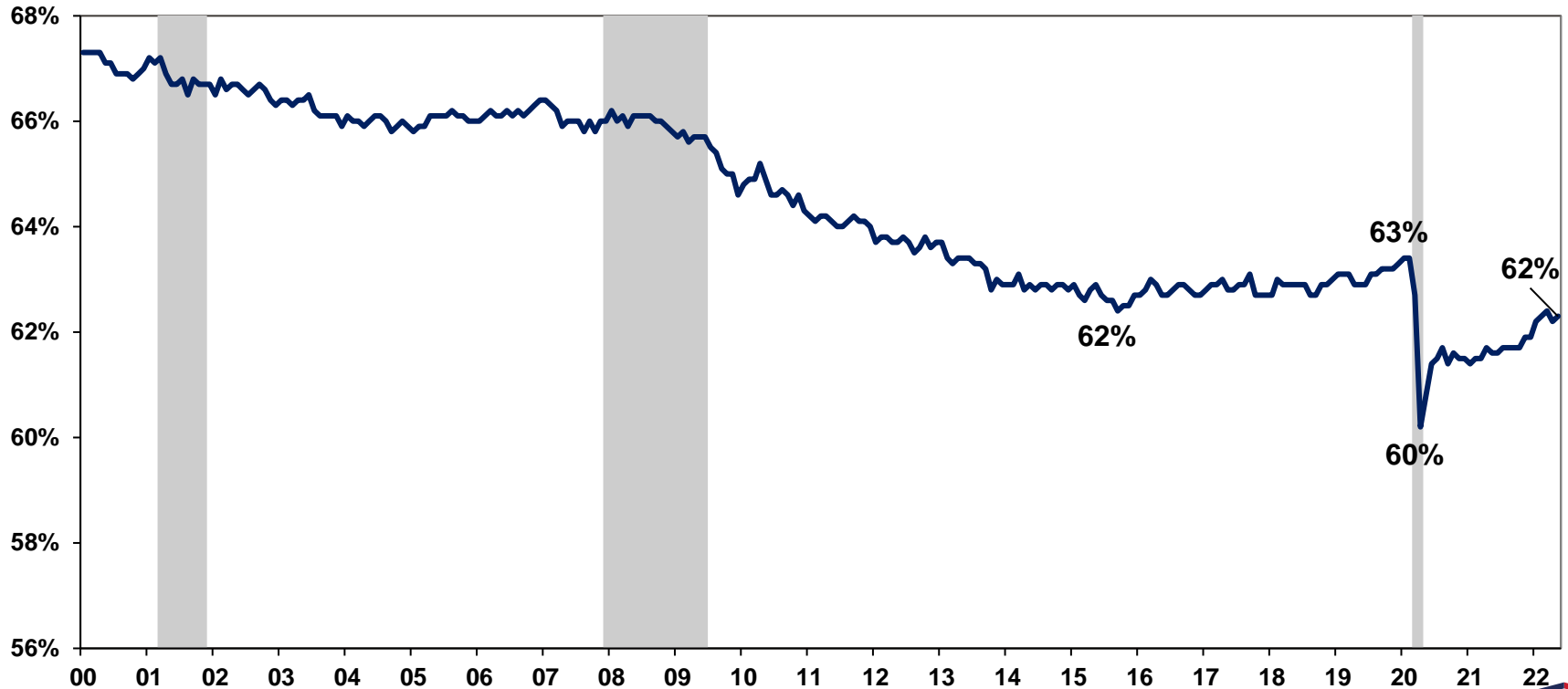
Asheville MSA recovered from COVID-19 recession and among job leaders



Source: U.S. Bureau of Labor Statistics (BLS)

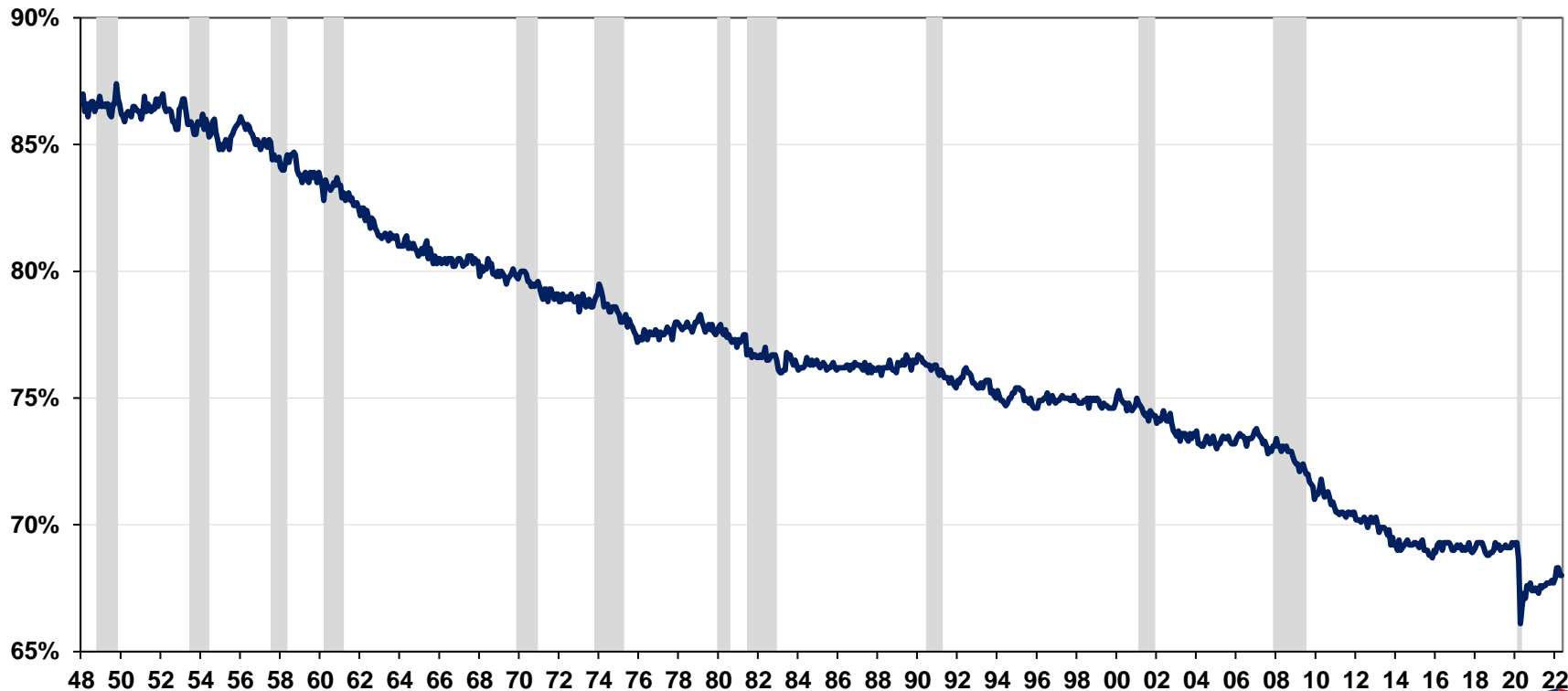
Labor Force Participation Rate

Labor force participation must be repaired as part of job market recovery



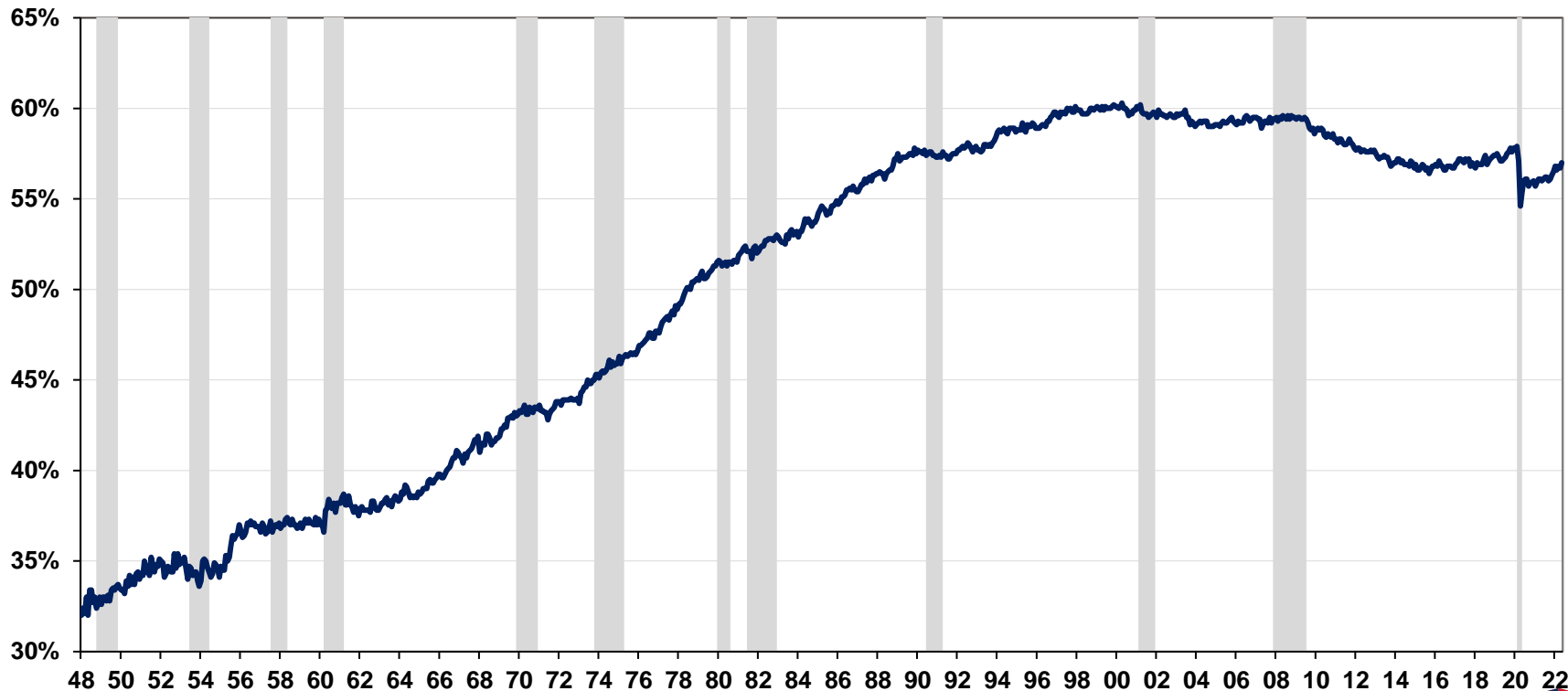
Source: U.S. Bureau of Labor Statistics (BLS).

Labor Force Participation Rate -- Men



Source: U.S. Bureau of Labor Statistics (BLS).

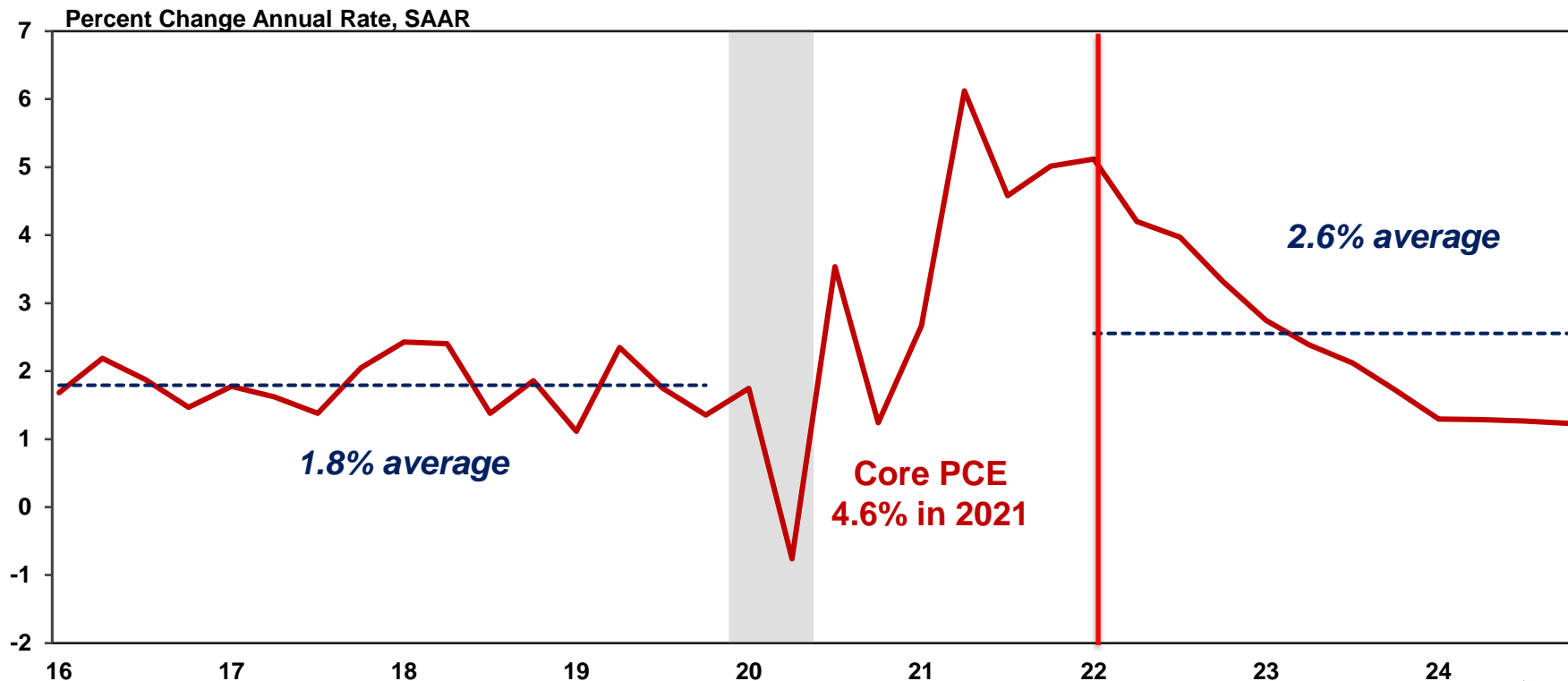
Labor Force Participation Rate -- Women



Source: U.S. Bureau of Labor Statistics (BLS).

Core Inflation

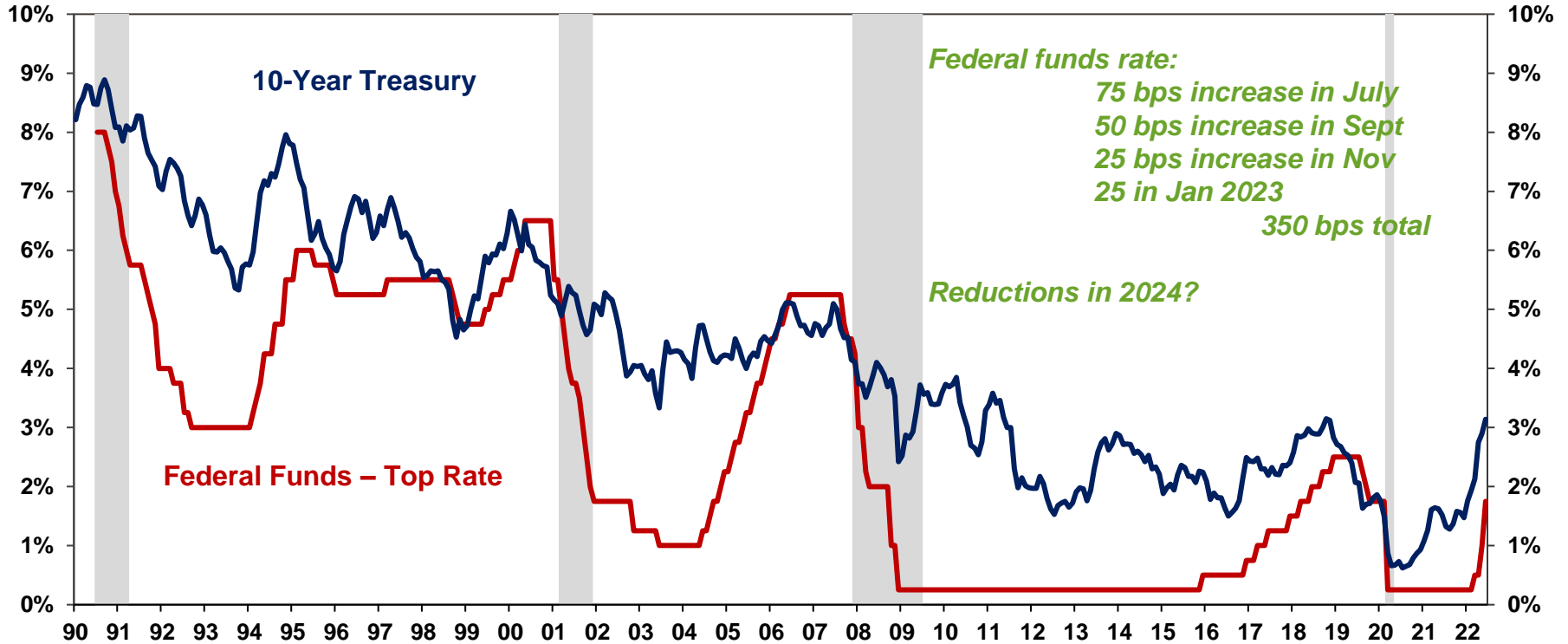
Inflation hit a fresh 40-year high in May



Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast

Monetary Policy Tightening in Response to Inflation

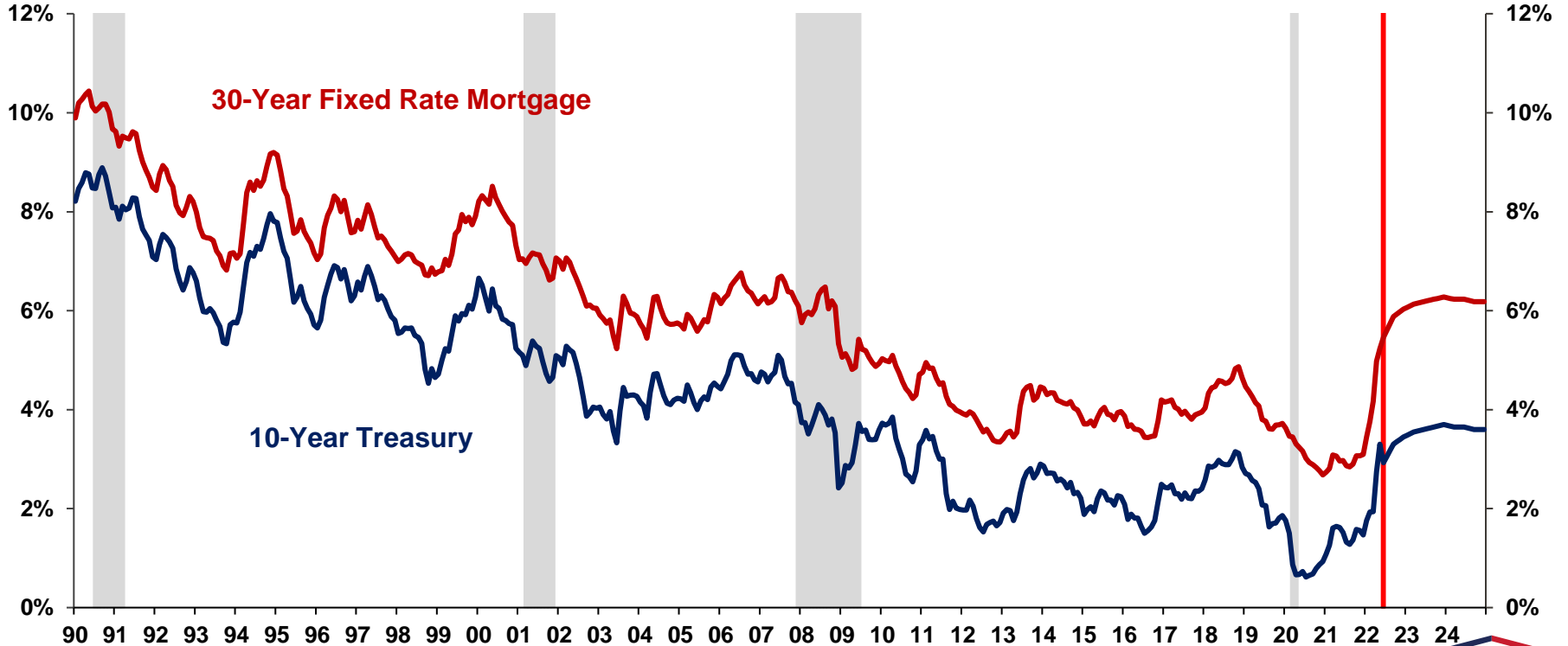
Rising federal funds rate in 2022



Source: U.S. Board of Governors of the Federal Reserve System (FRB).

Interest Rates Trending Higher

Much of the trend is built into current market conditions



Source: Federal Reserve and Freddie Mac data and NAHB forecast.

Recession in the Forecast?

Negative Factors

Rising interest rates and yield curve
Persistent inflation (commodities and wages)
International uncertainty
Declining stimulus impacts
Frothy asset prices

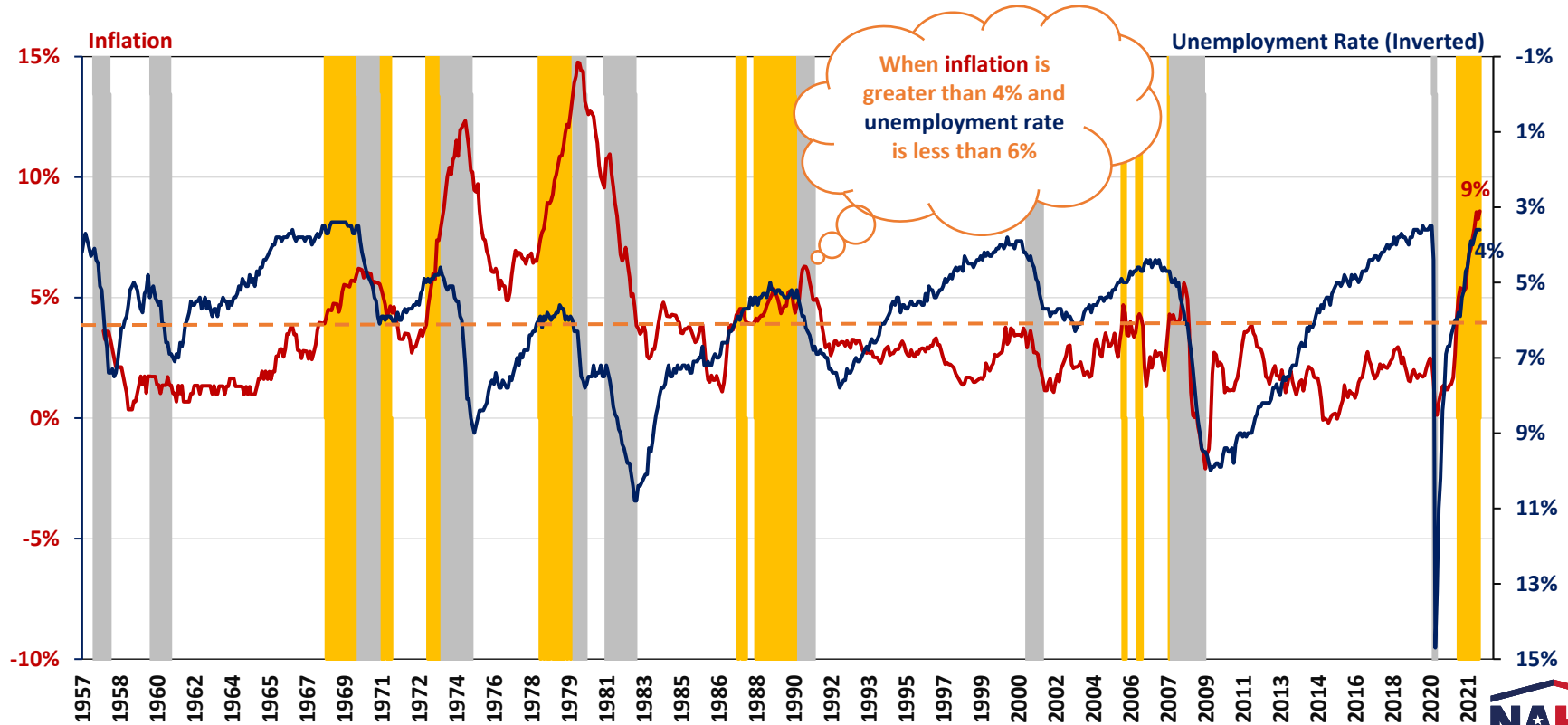
Positive Factors

Strong labor market
Healthy household balance sheets
Boost for service sector
Productivity gains

- Forecast call: mild recession in 2023 after a growth decline at start of 2022

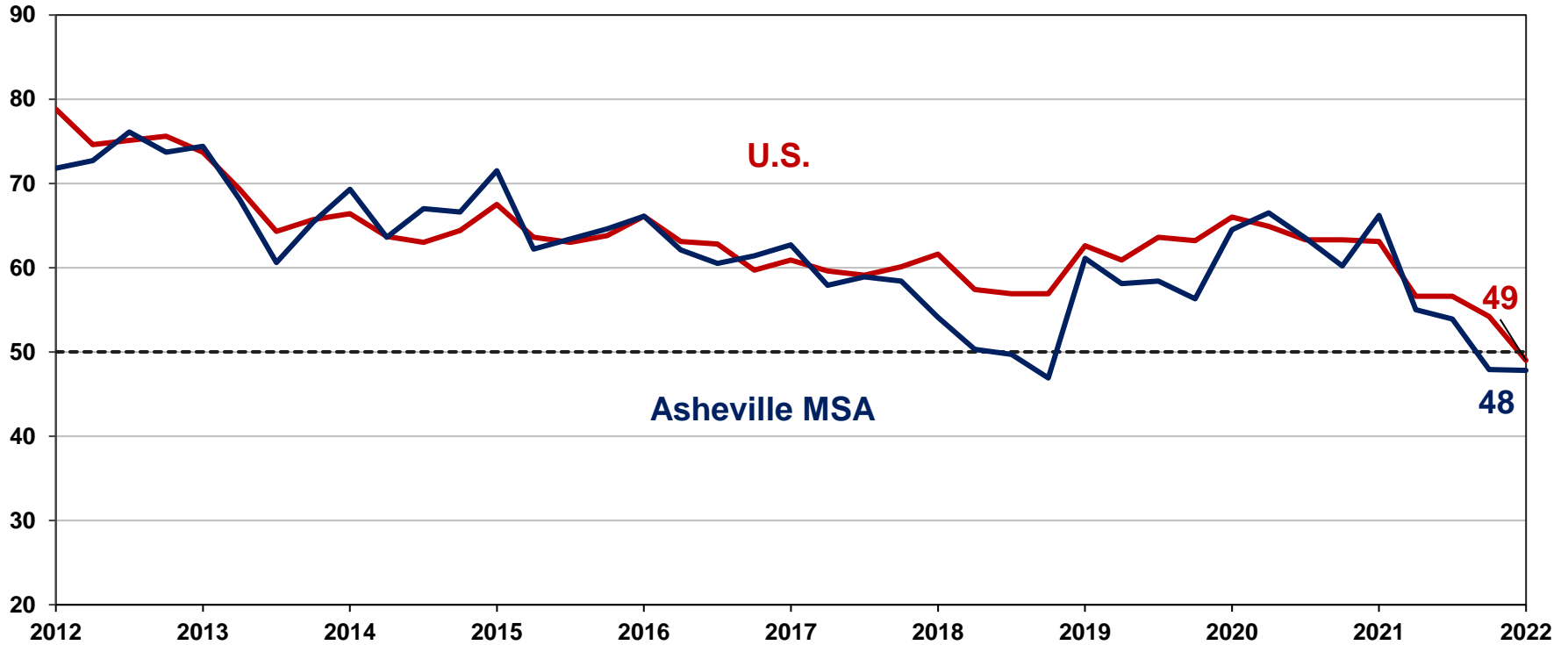
Inflation and Unemployment

Is a recession looming? History says yes



Source: U.S. Bureau of Labor Statistics (BLS), U.S. Bureau of Economic Analysis (BEA) and NAHB analysis

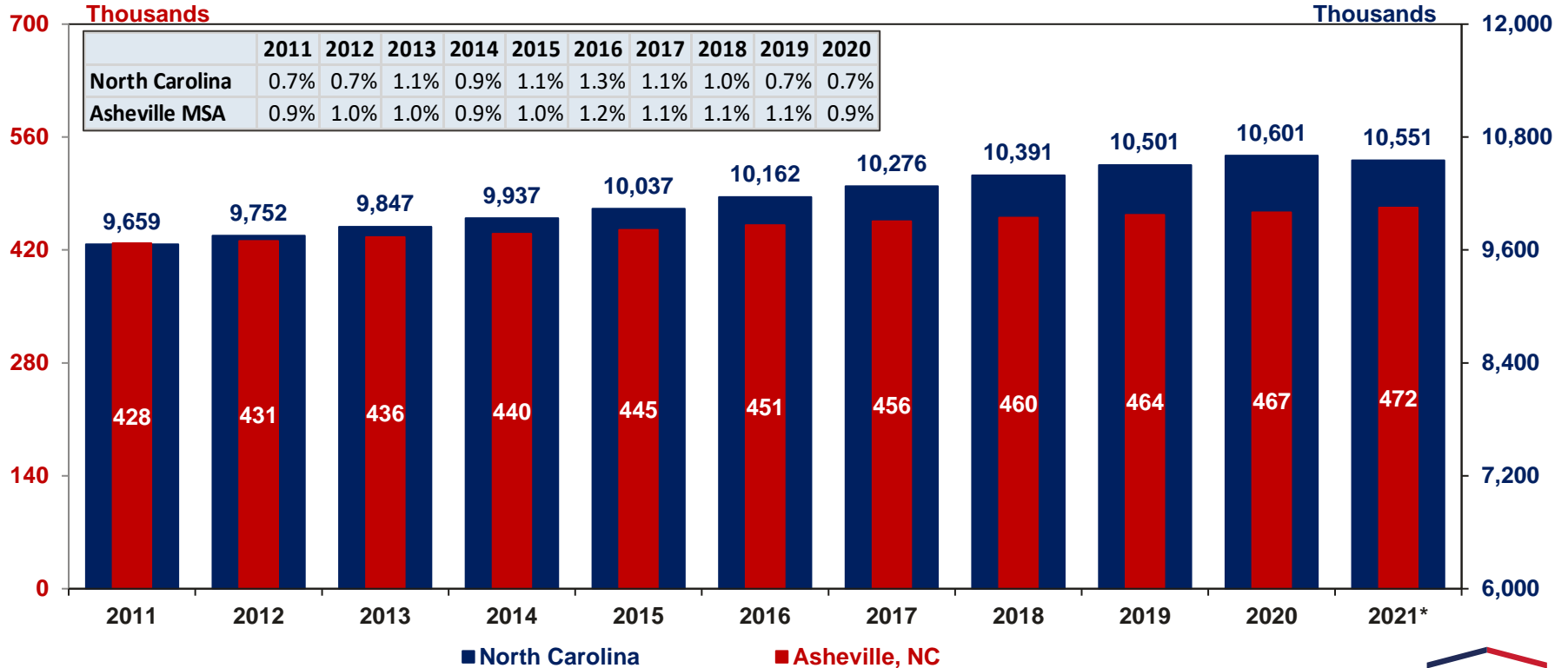
Housing Affordability Declines? NAHB/Wells Fargo HOI Lower



Source: NAHB/Wells Fargo Housing Opportunity Index (HOI).

Population Growth

Asheville MSA population grew faster than statewide rates



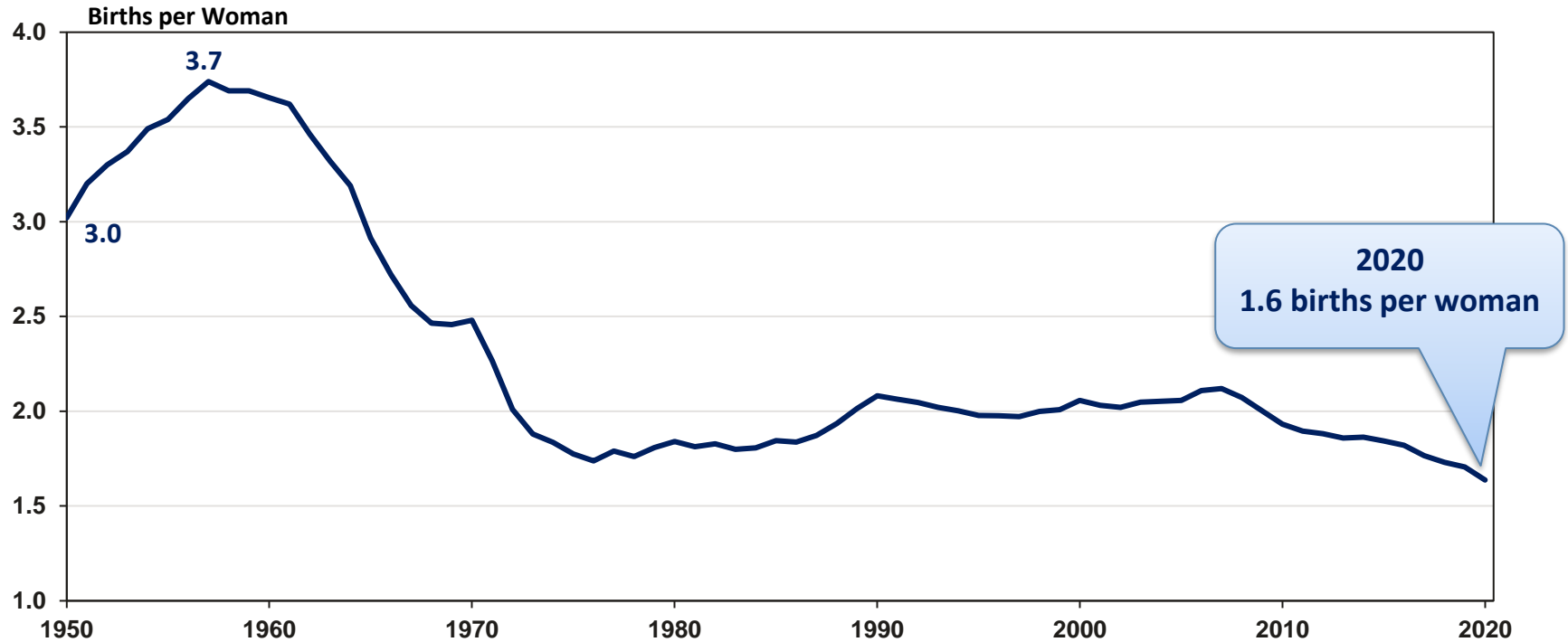
Source: U.S. Census Bureau (BOC)

Note: The Vintage 2021 population estimates reflect several methodological changes since the release of the Vintage 2020 estimates, so comparisons of 2021 estimates to previous years were not recommended by Census.



Total Fertility Rate

U.S. fertility rate hit an all-time low in 2020



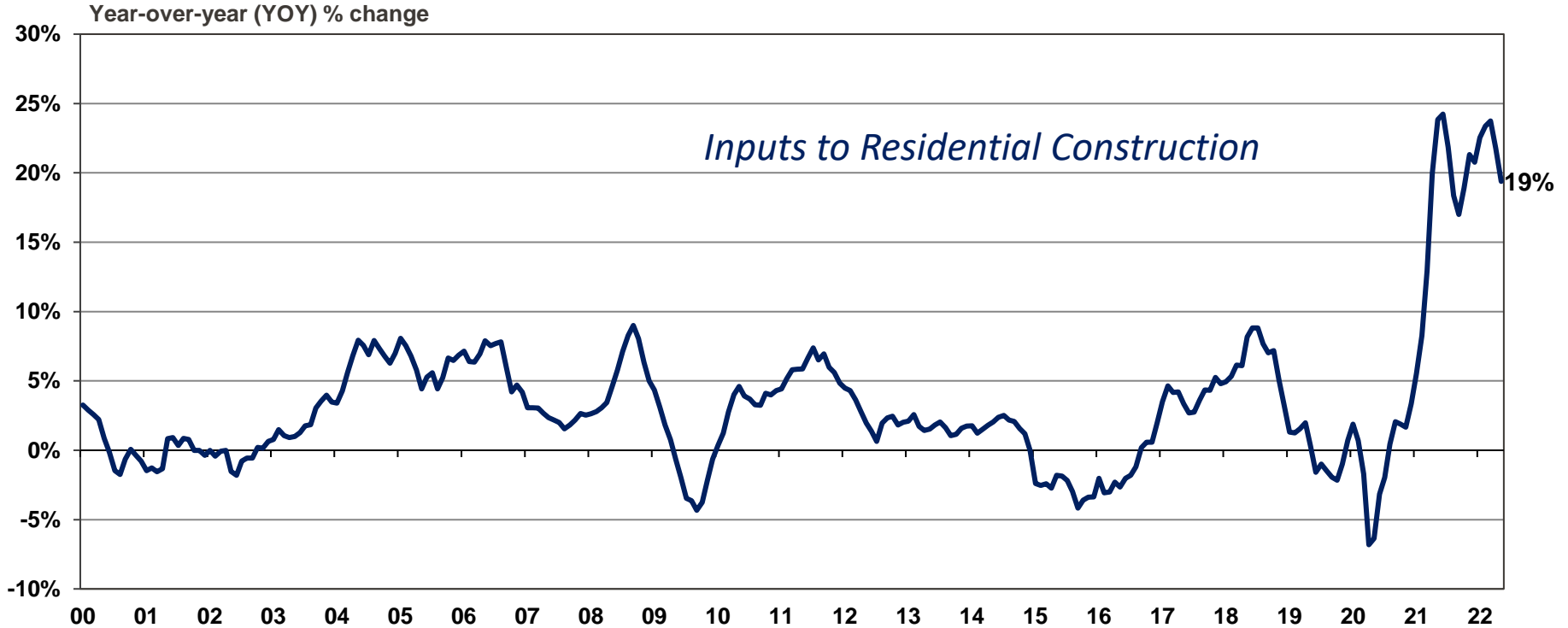
Source: The World Bank and <https://www.statista.com/statistics/1033027/fertility-rate-us-1800-2020/>



Supply-Side Factors



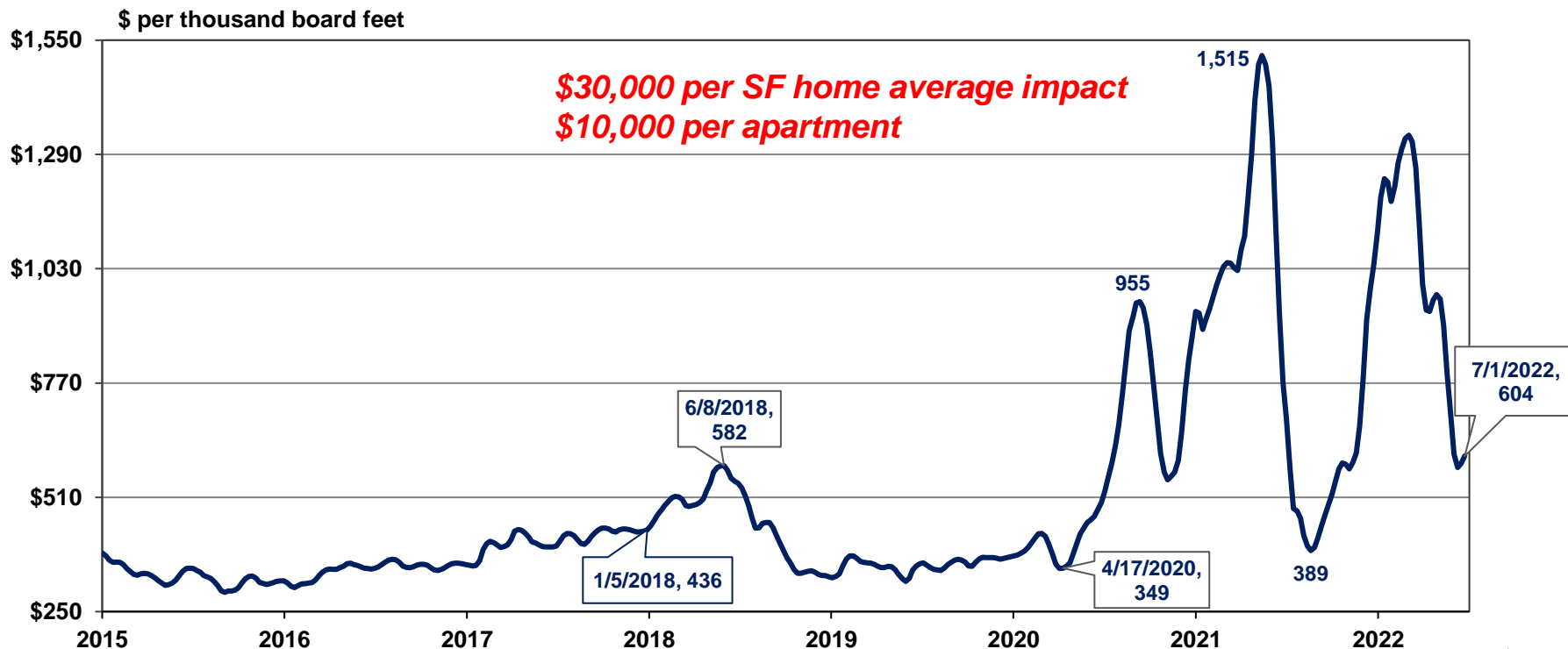
Building Materials - Residential Construction Cost



Source: U.S. Bureau of Labor Statistics (BLS): Producer Price Index (PPI)

Lumber Prices Lower in Recent Months

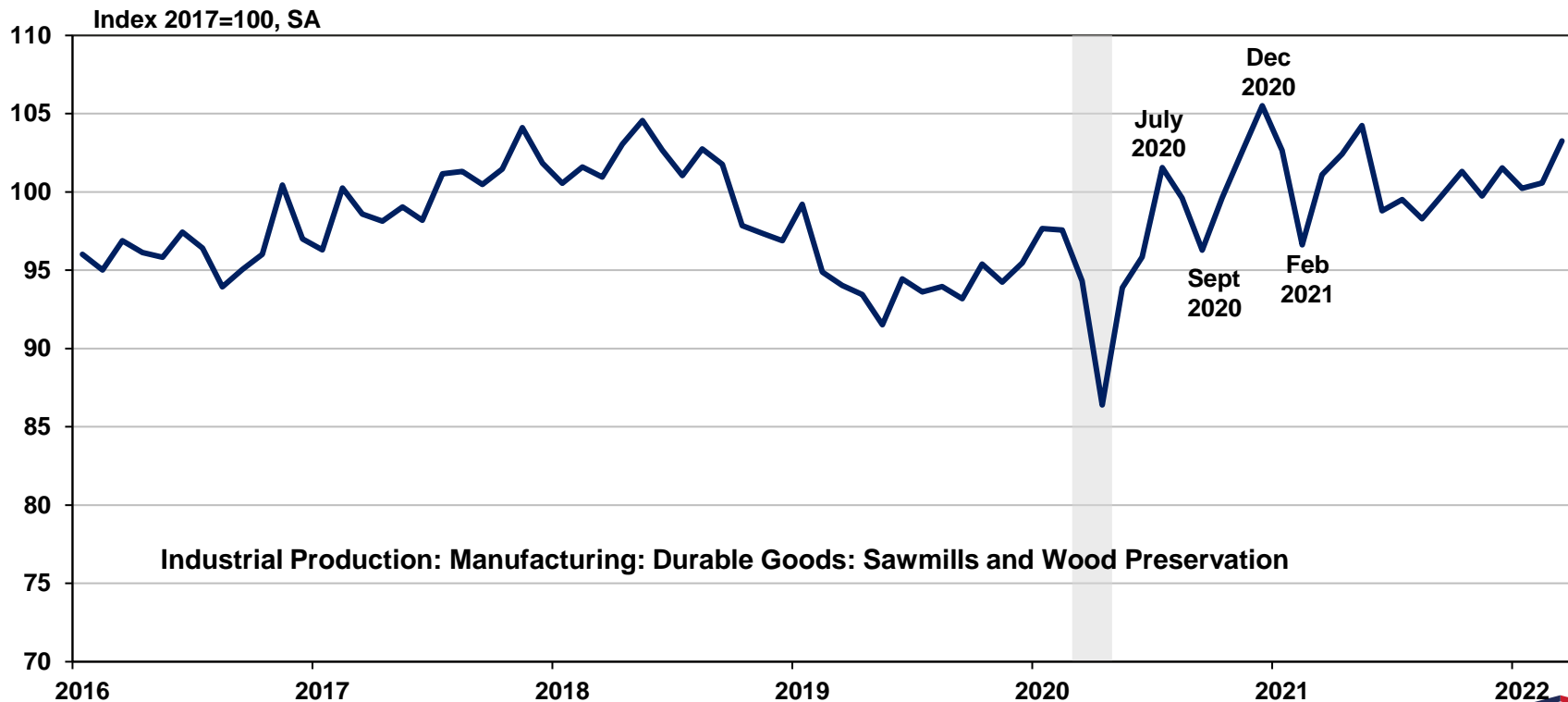
Current July price is \$604; increased 4% over the past two weeks



Source: NAHB Analysis; Random Lengths Composite Index

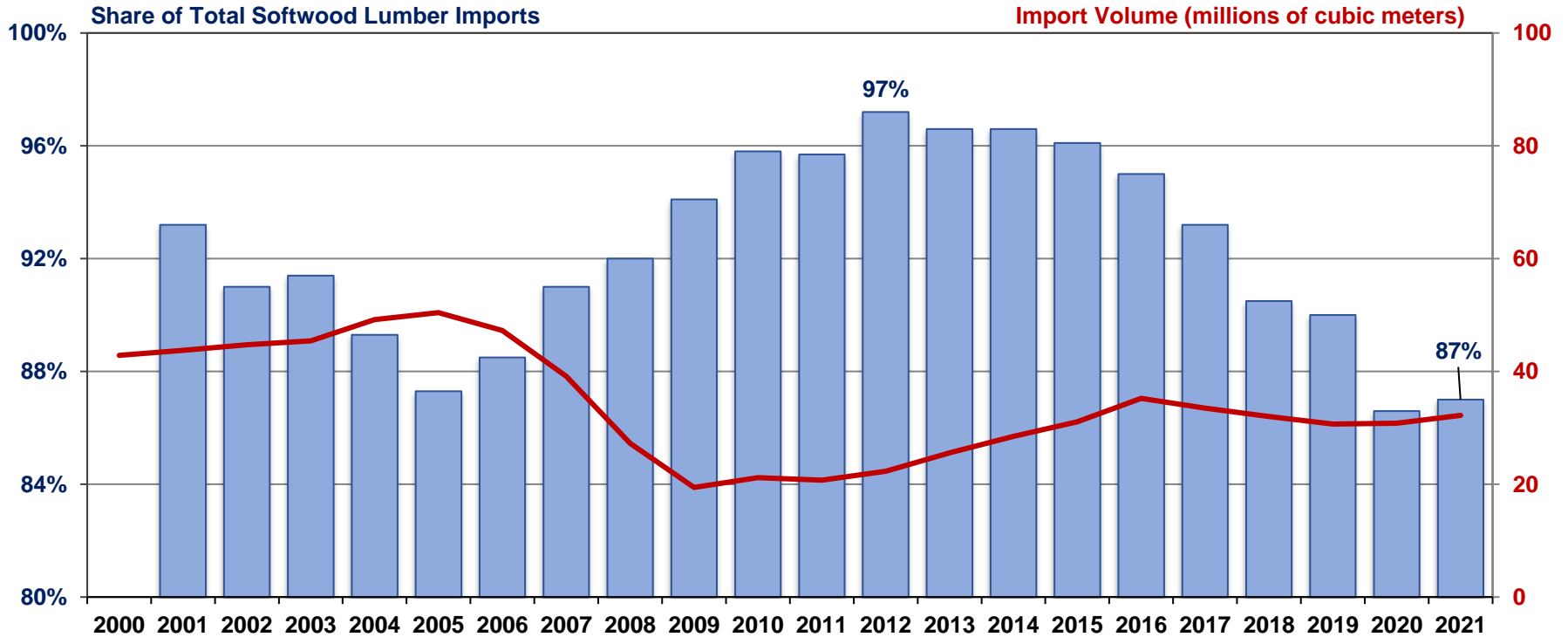
Domestic Sawmill Output

In April, sawmill employment is 0.1% lower than a year ago and 2.1% lower than April 2018



Source: Board of Governors of the Federal Reserve System (US)

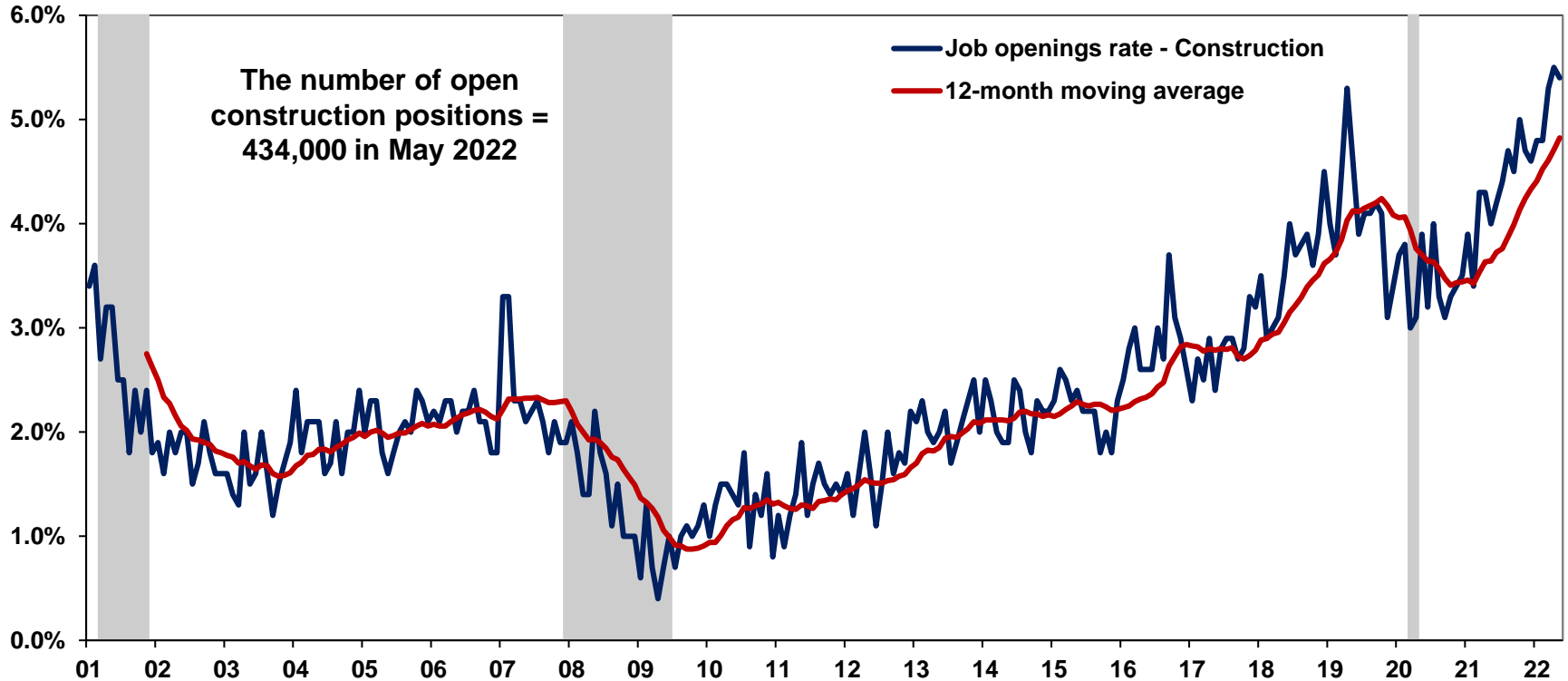
Softwood Lumber Imports from Canada



Source: DataWeb, U.S. International Trade Commission

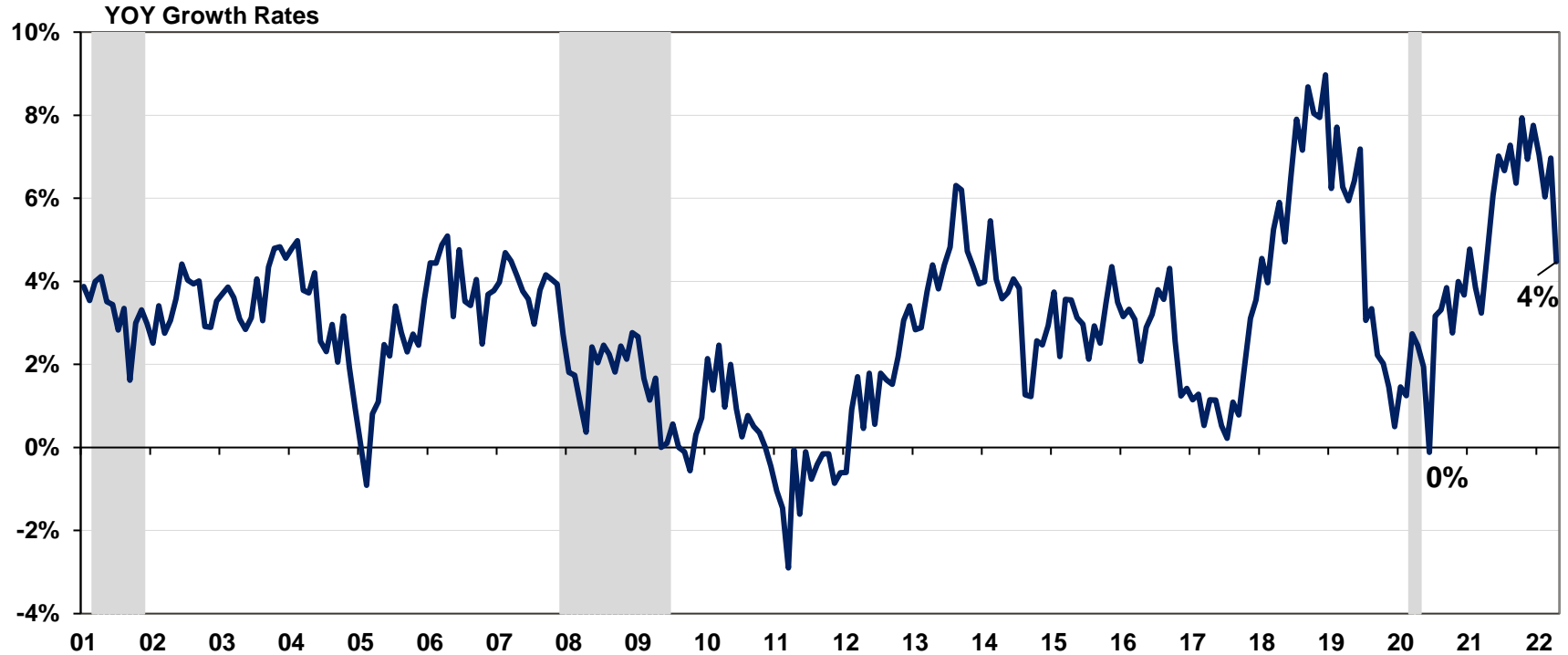
Labor – Construction Job Openings Surging

Skilled labor shortage persists; 216,100 net gain for residential construction since Jan 2020



Source: U.S. Bureau of Labor Statistics (BLS).

Wages for Residential Building Workers Trending Higher



Source: U.S. Bureau of Labor Statistics (BLS).

Construction Labor Market Projections/Needs



7.7 million workers in construction
3.2 million in residential construction



740,000 occupational openings per year
Based on industry growth and permanent worker exits



Keep in mind: 22% of workforce is self-employed
Immigrant share now 24%



Median age of construction worker is 41



Workers aged 25 to 54 make up 69% of sector in 2019
Down from 72.2% in 2015

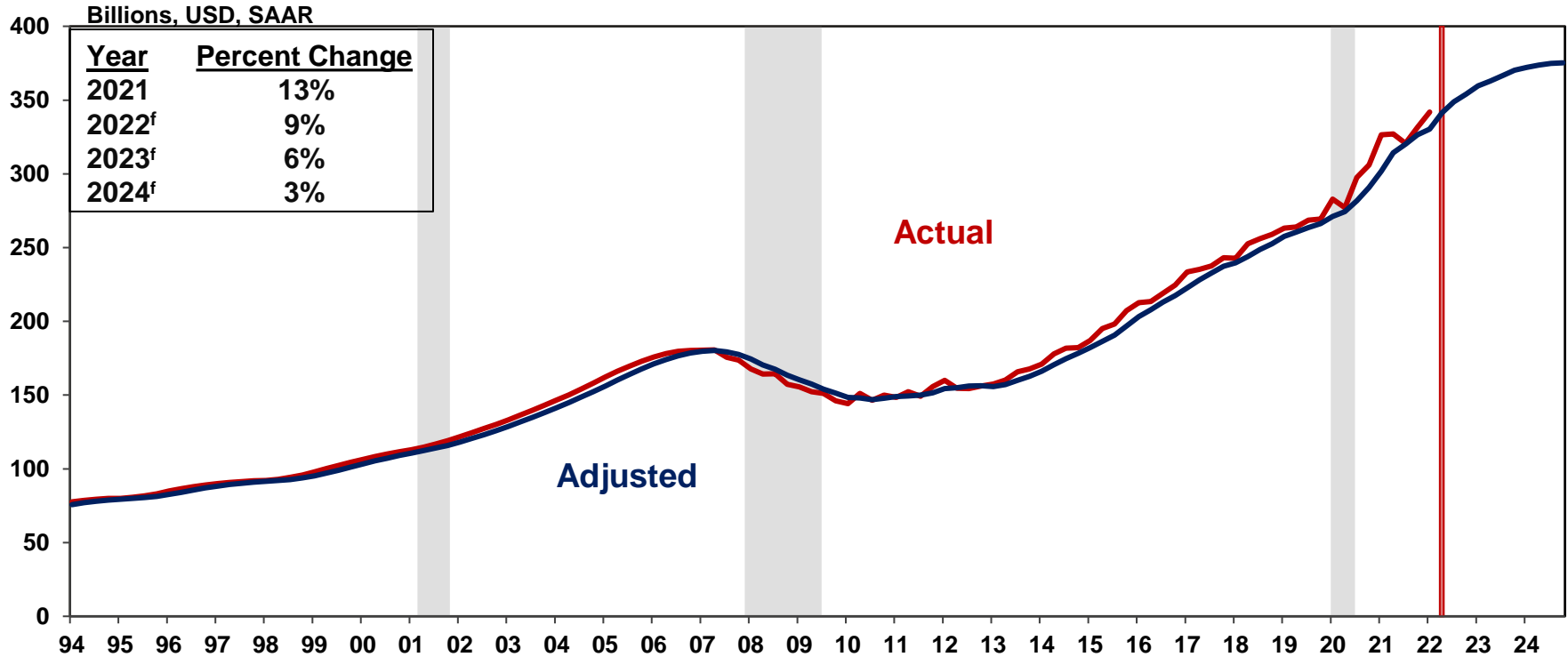


Construction Outlook



Residential Remodeling

Remodeling growth boosted by home equity gains

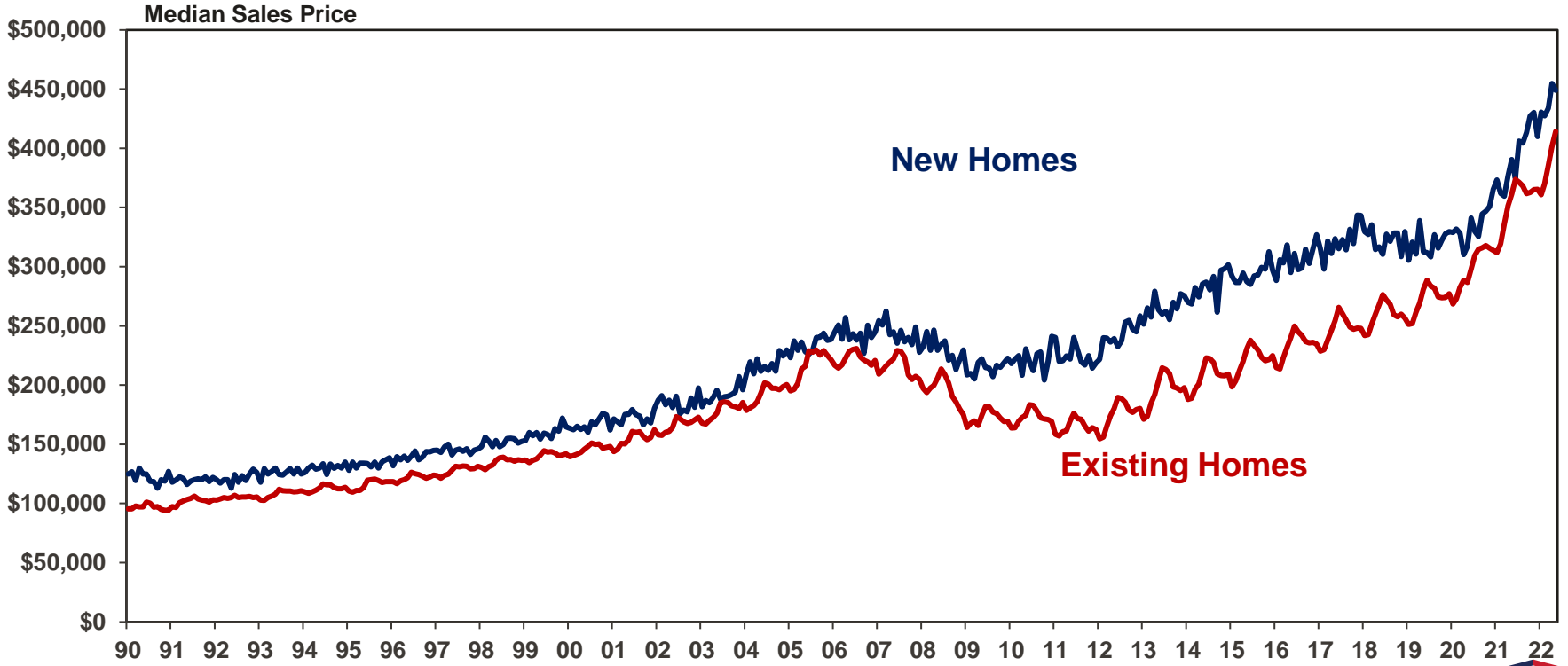


Source: U.S. Bureau of Economic Analysis (BEA): National Income and Product Accounts (NIPA) and NAHB forecast.

Note: In the analysis, 1-year moving average is used for adjusted data to smooth the trend.

Home Prices of New and Existing Homes

Home prices rising at unsustainable pace: 37% gain for new home prices since Jan 2020

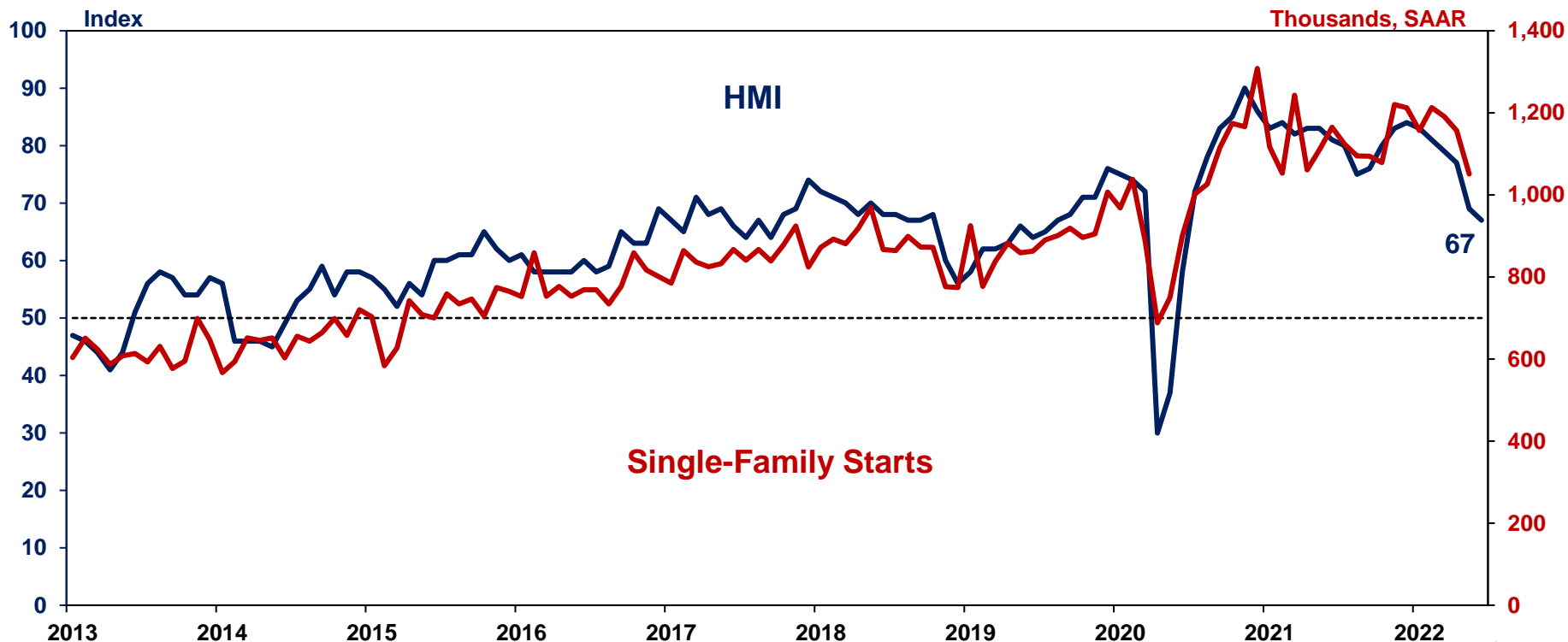


Source: U.S. Census Bureau (BOC) and National Association of Realtors (NAR)



NAHB/Wells Fargo Housing Market Index (HMI)

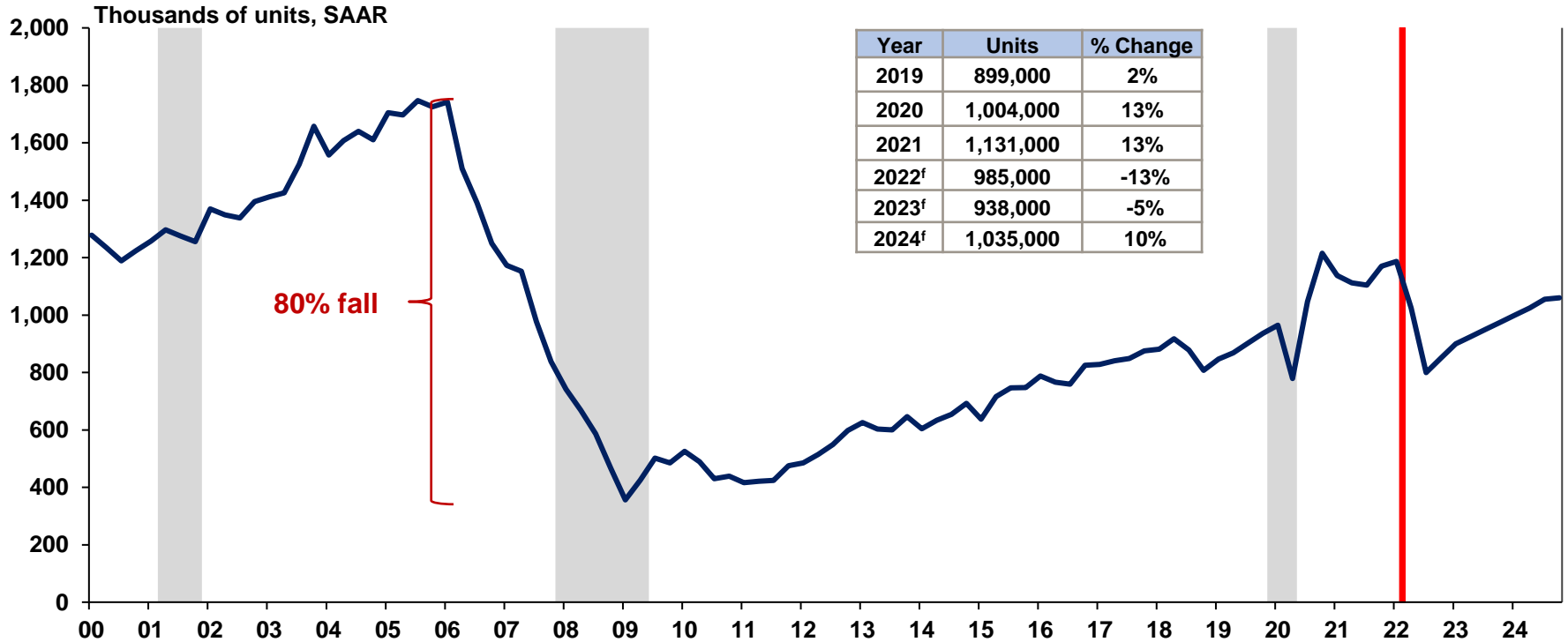
Builder confidence plunged on rising interest rates, growing affordability woes



Source: Census Bureau and NAHB/Wells Fargo HMI survey

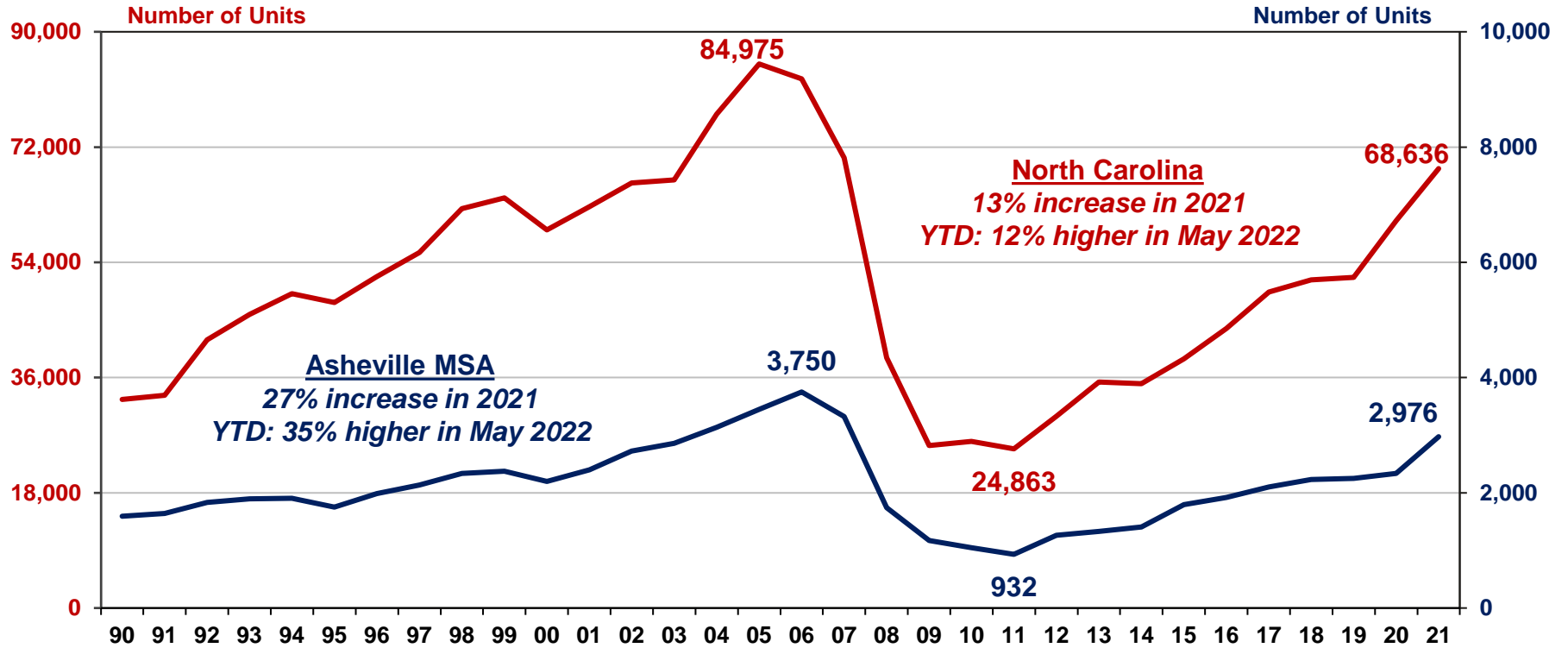
Single-Family Starts

Home building declines as interest rates increase



Source: U.S. Census Bureau (BOC) and NAHB forecast

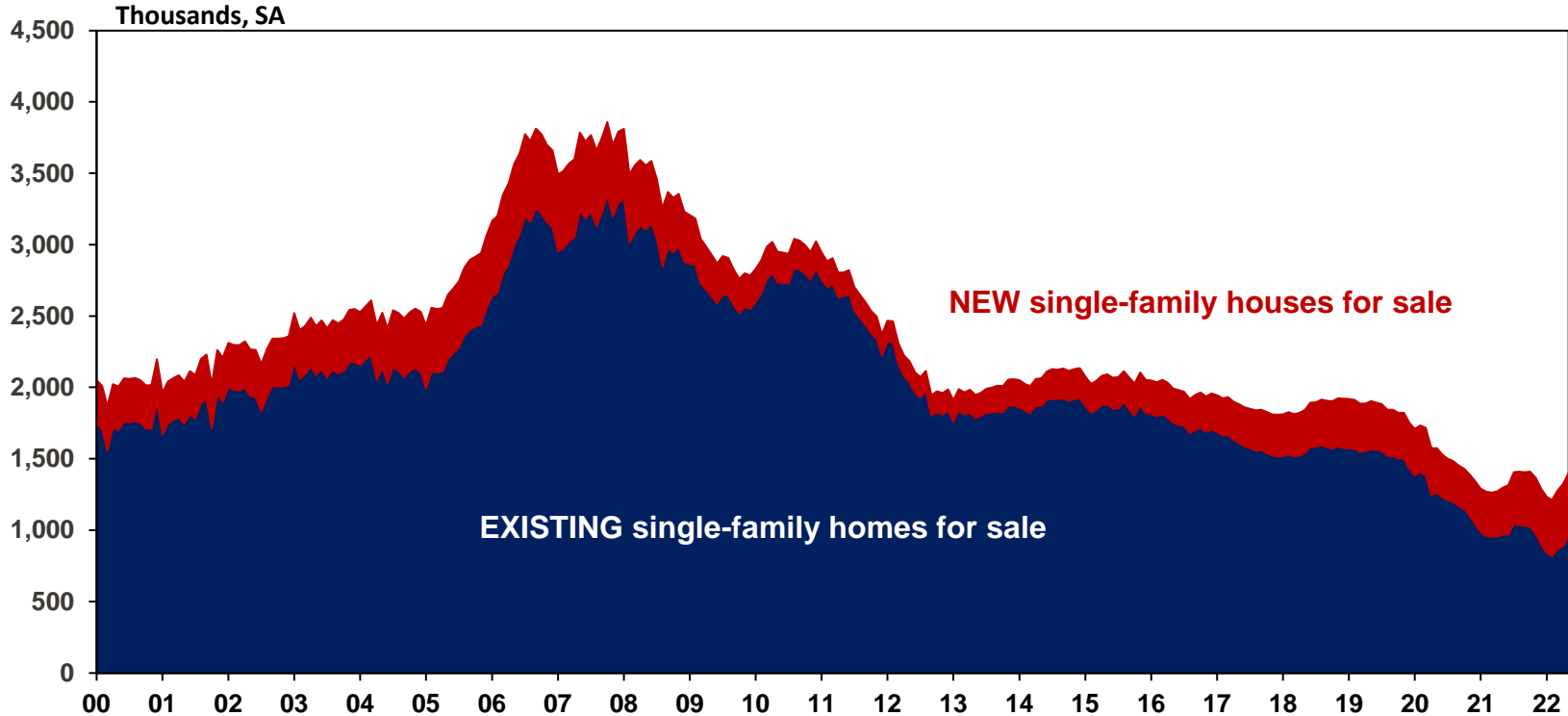
Single-Family Building Permits – North Carolina and Asheville MSA



Source: Census Bureau.

Total Housing Inventory

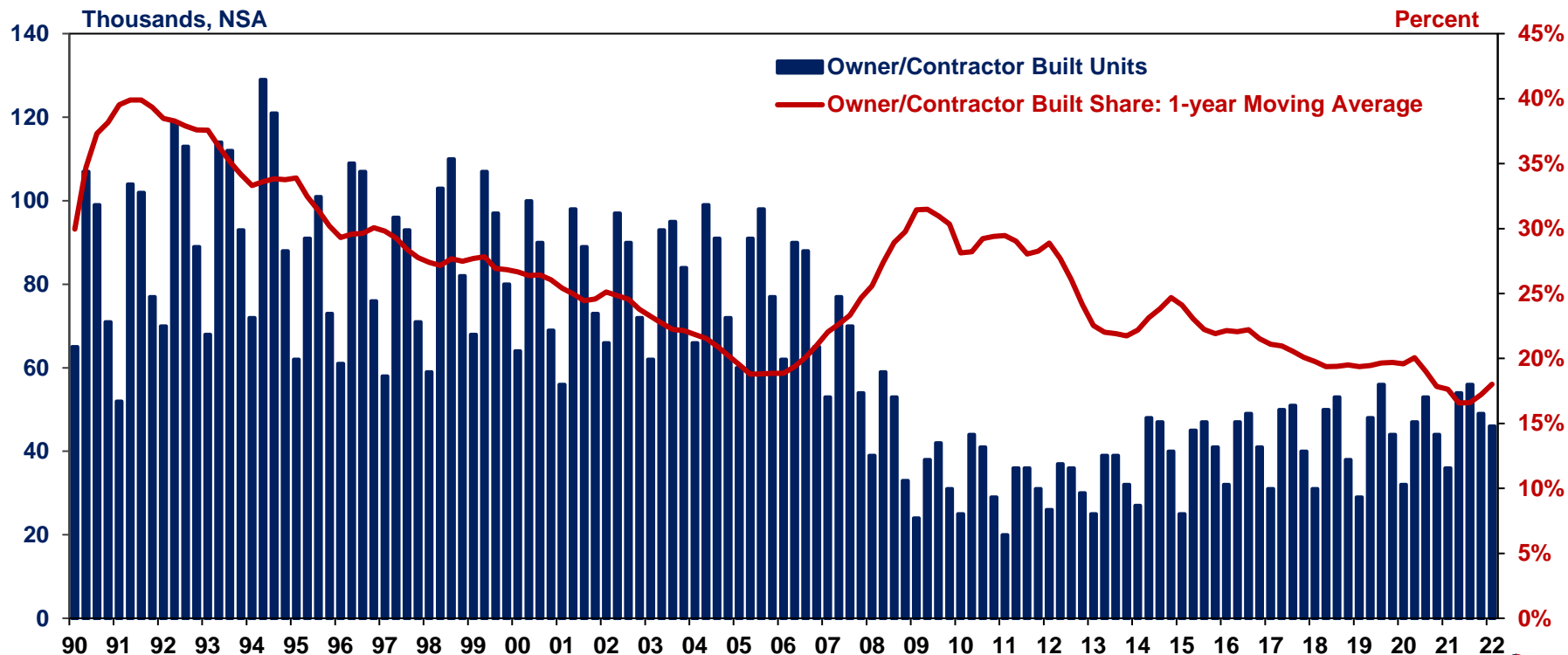
Will it rise in 2022?



Source: U.S. Census Bureau (BOC) and National Association of Realtors (NAR)

Custom Home Building Market

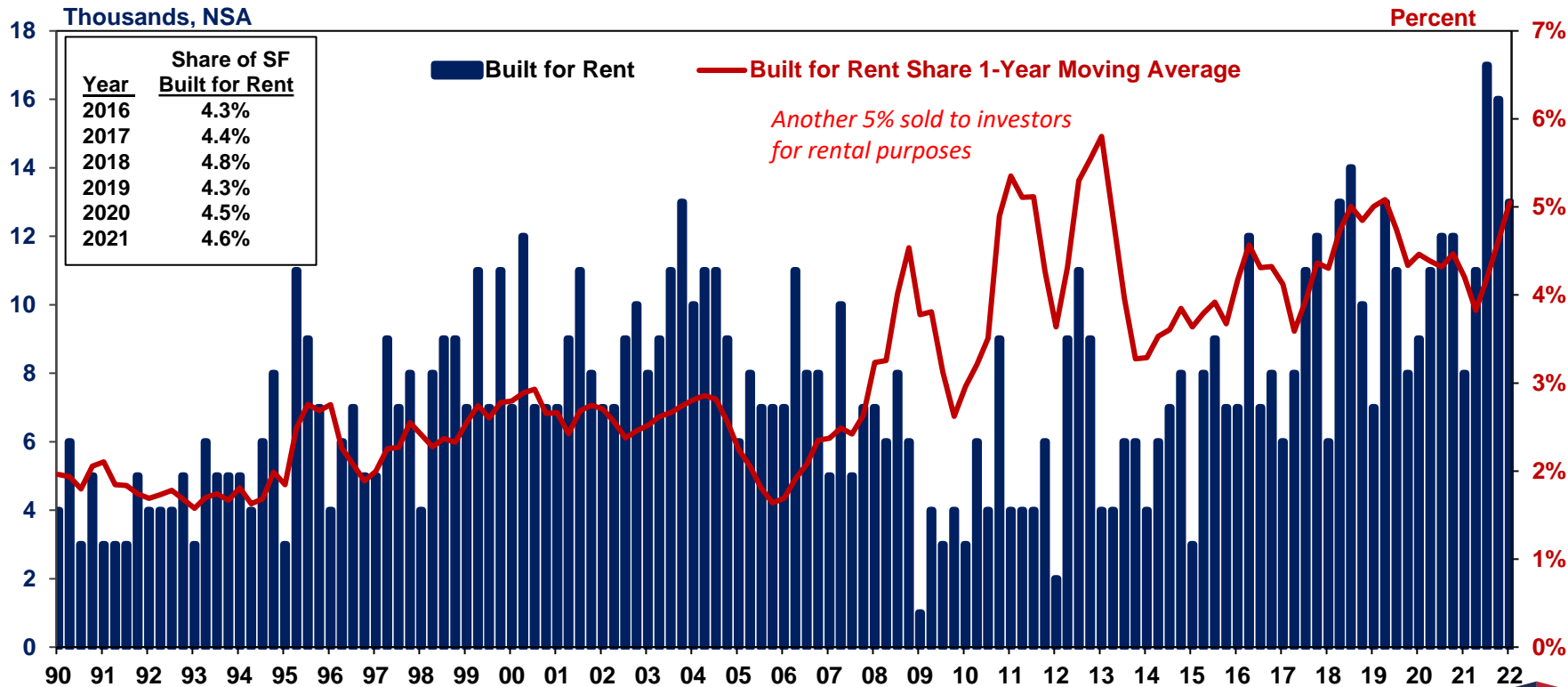
Solid gain in 2021



Source: U.S. Census Bureau (BOC)

Single-Family Built-for-Rent Construction

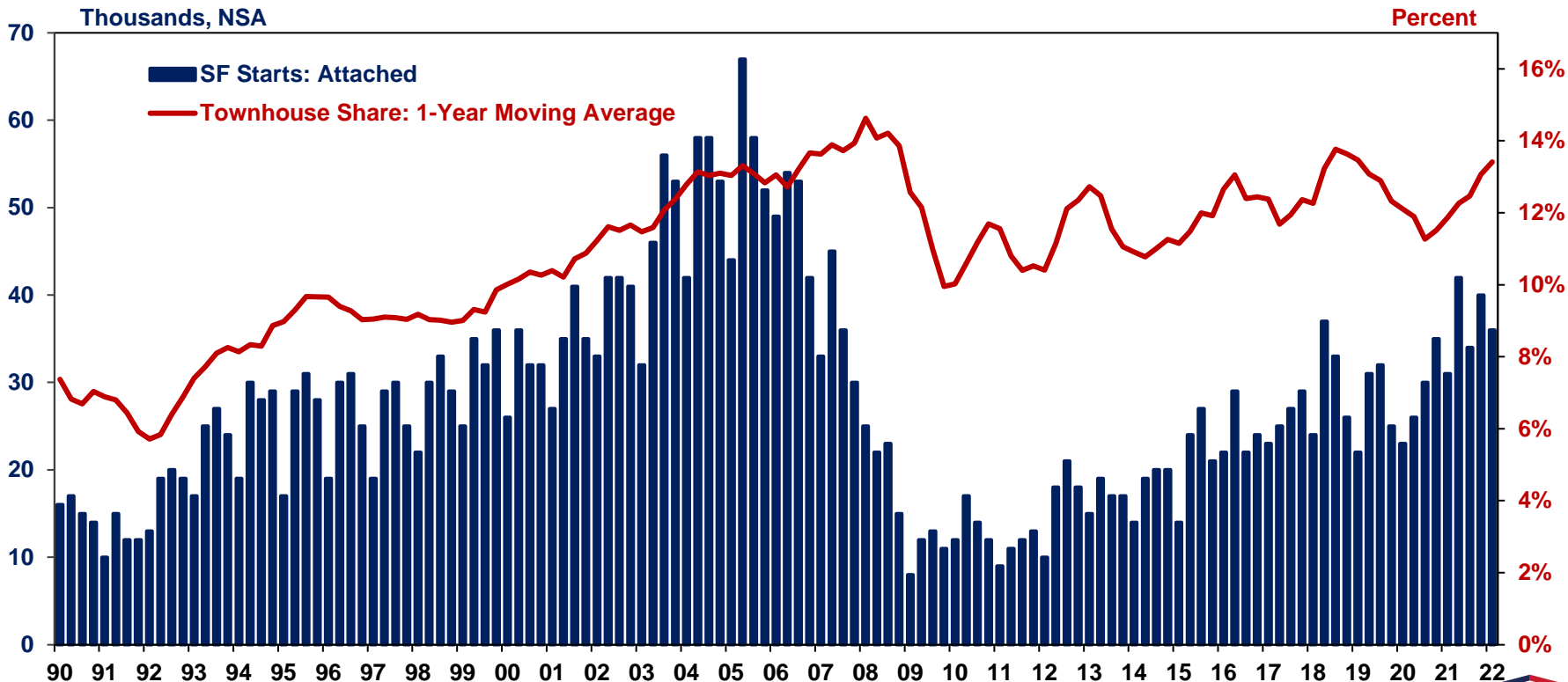
A window of opportunity



Source: U.S. Census Bureau (BOC)

Townhouse Construction Surged in 2021

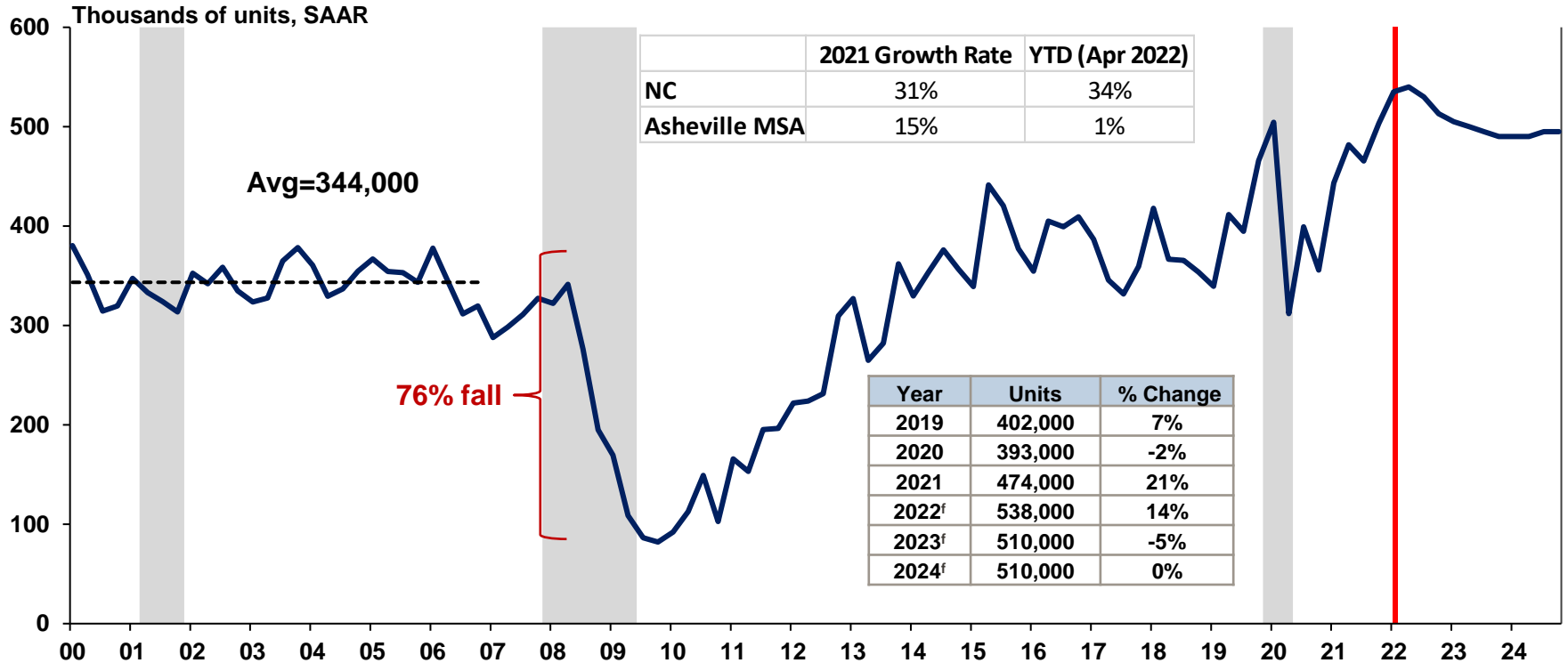
Market share of new townhouse rebounded after recent declines



Source: U.S. Census Bureau (BOC)

Multifamily Construction Growing

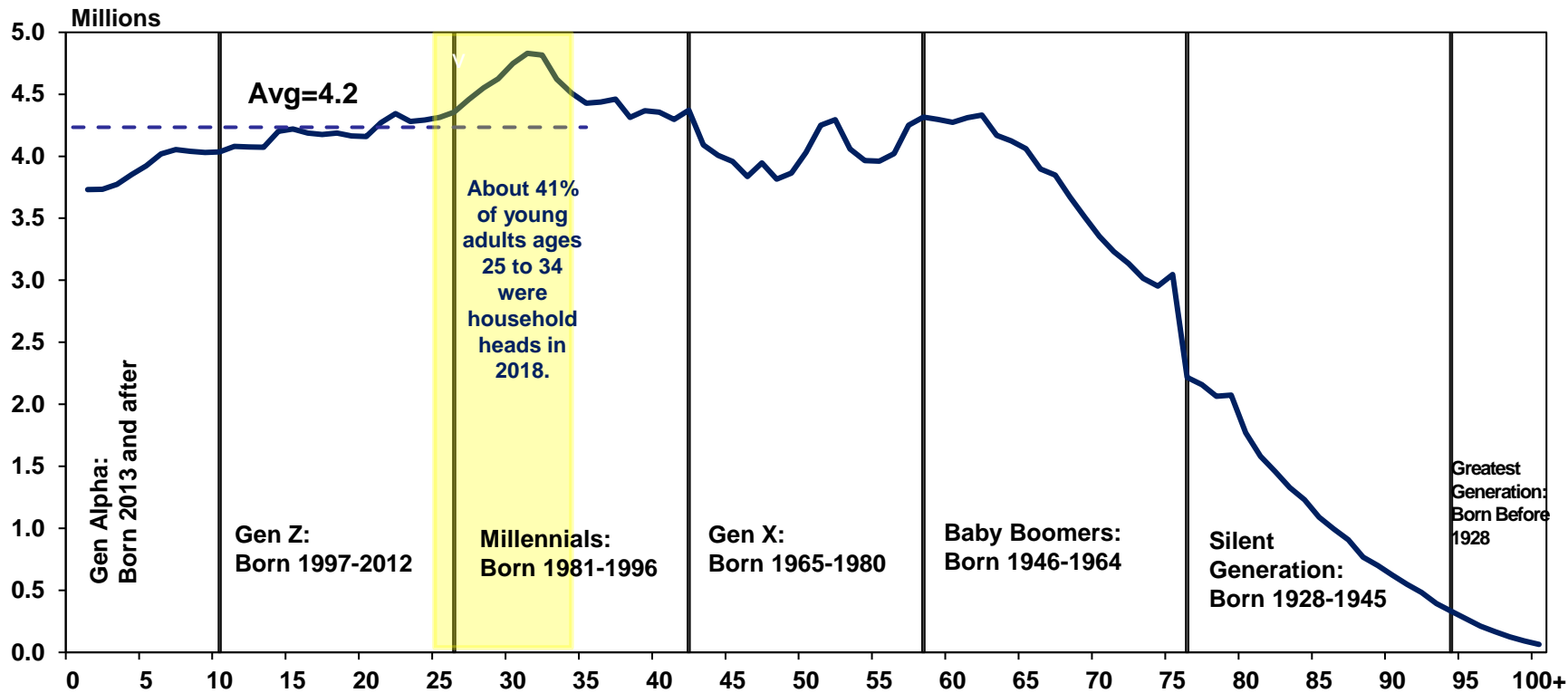
Multifamily growth rising on low vacancies and rising rents



Source: U.S. Census Bureau (BOC) and NAHB forecast

Rising Population Entering Housing Demand Years: 2022

Gen X the majority of new construction home buyers



Source: U.S. Census Bureau (BOC).

Thank you

Questions?

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Home Mortgage

eyeonhousing.org
housingeconomics.com